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TAGS: [EWWT](#) [ELTN](#) [EU](#) [PL](#)  
SUBJECT: POLISH ROADS: ROOT PROBLEMS AND PROSPECTS FOR  
PROGRESS

REF: WARSAW 3668 05

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Summary  
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1. (SBU) Poland's highway system remains practically non-existent. Though Prime Ministers Marcinkiewicz and Kaczynski have both made highway building centerpieces of their initial public addresses, systemic problems remain. Despite the availability of EU reimbursement funds, sources within the GOP question whether the state can raise enough money to go ahead with numerous planned road projects, and whether the GOP has the capacity to absorb all of the EU funding available. Complicating matters is the current GOP plan to move away from public-private partnerships and toward a more state-centered financing model that would draw the bureaucracy further into the various phases of road building. In addition, basic issues that have troubled road building for years, such as inadequate staffing, salary gaps, and legal barriers, all remain. Though regional and national roads will undoubtedly be built eventually, Polish politicians have yet to take ownership of the problem, which means that Poland's transportation infrastructure will continue to lag behind European standards, in terms of both effectiveness and safety. End Summary.

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Background  
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12. (SBU) Background. The central government has responsibility for overseeing financing, construction, and maintenance of all national-level roads, which vastly outnumber the country's regional roads, which are managed by local governments. Poland has less than 300 km of roads that are comparable to U.S. highways or interstates. In addition, ring roads are almost non-existent. The result is that traffic of all sorts - local, international, private, and commercial - are all channeled on to small roads that normally have one or one-and-a-half lanes (or a hard shoulder) running in each direction. Heavy truck traffic has created deep ruts in many of the country's busier roads, as surfaces were simply not built to absorb the amount and weight of heavy trucks running primarily West to East (and vice-versa). The net effect is that Polish roads are the deadliest in the EU. In order to improve the situation, the GOP has a plan to build over 5,000 km of highway before 2011, although the GOP's historical inability to implement road improvement projects suggests this goal will be impossible to attain.

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The Bureaucratic Constellation  
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13. (SBU) One of the greatest obstacles the GOP must overcome is the fact that competencies central to road building are scattered across too many ministries, with no single ministry or organization responsible for overseeing the overall process of building roads. For example, the Ministry of Transport holds general responsibility for building and maintaining national roads. However, much of the planning and execution functions associated with the effort are sourced out to the General Directorate of National Roads and Highways (GDDKiA). While the GDDKiA is subordinate to the Ministry of Transport, the organization is housed in a separate building. Sources in both the GDDKiA and other ministries have told us that communication is poor and that the GDDKiA basically operates as a separate entity, both overworked and in over its head. Debates about whether to abolish the GDDKiA have characterized the politics of Polish infrastructure since the GDDKiA creation in April 2002 through a merger of the General Directorate for Public Roads and the Agency for Construction and Maintenance of Highways.

14. (SBU) The Ministry of Environment also plays a central role in road building due to Polish and EU strict standards on environmental impact studies, while the Ministry of Regional Development is in charge of identifying EU funding and allocating it to different projects. Last, the National Bank of Economy (BGK) manages the financing of road construction. Missing from this constellation of executive responsibilities is a clear concept of which ministry has the lead in road building. We have been told by officials in the Ministry of Transport, GDDKiA, Ministry of Regional Development, and BGK, that on crucial issues they can only suggest solutions, but are not in a position to take full ownership of any road-building problem.

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Funding Polish Roads  
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15. (SBU) Funds come from several sources. First, there is a fuel surcharge equivalent to three cents made on each liter of fuel purchased. In 2006 the total amount from this charge is expected to be approximately 1.07 billion zloty (approximately \$330 million), the same amount is projected for 2007. The second significant source of funding is a fuel excise tax of 30% on all fuel charges. Revenue from this tax is allocated to road and railway projects. Road projects currently receive two-thirds of the total tax revenue, projected to be 2.3 billion zloty in 2006 (approximately \$750 million). Additional money is raised through tolls and through vignettes that may be purchased by commercial

transport drivers. Money collected from these sources goes directly into the National Roads Fund (KFD), which is managed by the BGK. The BGK uses funds from the KFD to finance new roads projects. Though large amounts of EU funds are available for building roads, they are available only for reimbursement on completed work. Front end financing, therefore, is provided by BGK.

¶6. (SBU) In case of funding shortfalls, the BGK can draw credit or issue bonds to secure additional roads funding. For example, in 2005 the BGK took two lines of credit from the European Investment Bank (EIB). The first, in the amount of 175 million Euro, is being used for extending the A2 highway from Konin to Strykow (near Lodz). The second, in the amount of 380 million Euro, is being used to build ring roads and expressways. In May 2006 the GOP took another line of credit from EIB for 200 million Euro, which will be used to modernize expressways and ring roads around Poland. The GOP is currently negotiating with EIB to secure an additional 300 million Euro credit line.

¶7. (SBU) The BGK has also begun to more seriously consider bonds in funding road construction. In May 2006 the BGK issued 10-year bonds worth 200 million Euro, guaranteed by the GOP. The money generated from the bond sales will be used for investment projects, land purchases, co-financing, and pre-financing on roads that are eligible for EU matching funds.

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What Problems Remain?  
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¶8. (SBU) The major problems that continue to hamper the development of the Polish highway system are the same ones that have troubled the effort all along. Basic personnel issues are at the heart of the matter. The GDDKiA is severely understaffed and lacks a cadre of young motivated public sector employees. The average length of employment at the GDDKiA's highway division is eight months for junior employees. Salaries are so low that employment in the GDDKiA is basically treated simply as a professional development course, after which employees seek (and find) employment with private sector firms paying much better salaries.

¶9. (SBU) Furthermore, the GDDKiA is still populated by employees, among them engineers and planners, some of whom began working on Polish roads projects in the 1980s (this can also be said of the Ministry of Transport). More than one Embassy contact was exasperated by this fact, and stated that some of these employees simply do not take their work seriously, and report to work only to collect a paycheck. One such employee told Econoff this during a meeting several months ago, joking that he had seen many ministers come and go, but that none of them could fire him. He then launched into a 30 minute tirade about the clash of civilizations. Such cases are undoubtedly exceptional, but the task facing the GOP over the next several years committed and capable personnel.

¶10. (SBU) The GOP also faces a funding problem in constructing roads. Jerzy Kwiecinski (protect), Undersecretary of State in the Ministry of Regional Development told us that the GOP has received almost 13 billion Euro in structural funds for the period 2004-2006, and that one-third of this money has been devoted to the transportation infrastructure. The same amount will be allotted for 2007-2013. Kwiecinski stated that Poland will be able to absorb all of these funds for 2006 and 2007, but that significant challenges will begin in 2008 and last until ¶2011. Cohesion fund projects will end in 2010, and in 2011 the n 2 and n 3 provision will begin, possibly jeopardizing the total amount of EU funds allocated to certain projects. In order to avoid this, the GOP will need to significantly enhance its bureaucratic capacity to use EU funds over the next several years. The threat of losing EU money may provide the necessary political incentive to restructure the

ministerial configuration responsible for road building, transforming it into a more hierarchical organizational chart.

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Look on the Bright Side  
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¶11. (SBU) Though much work (and much of it basic) remains to be done, the GOP has taken steps in the right direction. Kwiecinski told us that several barriers to road construction have been removed. For example, responsibility from dealing with EU funds for roads has been shifted to one unit within the Ministry of Regional Development. Previously this responsibility was scattered across ministries. In addition, the public procurement law was reformed in May 2006 in order to limit the scope of appeals that can be filed following a successful bid on a public roads project. This law previously gave companies who lost bids on public tenders amazing leeway in appealing the winning bid, thus slowing down construction by months or years by tying the issue up in the courts. A special act allowing local authorities to break up demonstrations by protesters seeking to physically block road construction has also been passed, though only until 2007. In addition, The GDDKiA will benefit from an internal bureaucratic reform that gives it greater ability to use internal GOP funding for road building. Perhaps most importantly, the law on eminent domain has been amended to grant the GOP greater ability to expropriate land at market prices. This is critically important due to the vast number of smallholders who live in Poland's countryside. Obtaining land has always been difficult for both the GOP and private building corporations due to the fact that any land purchase involved negotiations with multiple land owners. A law on special purpose companies is also in the works, which would provide the GDDKiA with greater legal ability to outsource functions traditionally within its own competency. This would theoretically enhance the capability of the GDDKiA to implement projects.

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No Such Thing as Political Will  
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¶12. (SBU) Comment. It is clear that Poland will eventually build a modern road system. The question, of course, is when. Efforts to build national roads in Poland originate and end within the realm of the bureaucracy. Though politicians sometimes address the issue, many have decried a lack of political will. But political will, as in this case, is often a hollow term, and is basically another way of saying 'incentive.' It is clear that politicians at both the local and national levels must become more interested and involved in roads. However, the situation presents a Catch-22: Authority for road building is located across several ministries, and any politician who campaigns (or seeks to formulate policy) on a program of better roads, is basically taking on the challenge of reforming an entrenched bureaucracy. Any politician who takes this challenge on would need to learn about the arcane world of Polish transportation in the public sector, and then garner support for firing or at least marginalizing many ministry employees, hiring a large new cadre to adequately staff the GDDKiA, and increasing their salaries. Any politician who is daring enough to accept this challenge needs to ask him or herself what the electorate would say to more ministry employees and higher salaries. The real question for the politician is: What is my incentive to undertake this reform effort, and do I have the power to make it happen? No politician has emerged who is ready to become thoroughly involved in the roads issue. Instead, they seem willing, especially since the majority PiS party controls all of ministries responsible for road building, to let the road building bureaucracy manage and reform itself. Although the bureaucracy will eventually reach its goal of building a national roads system, with massive help from the EU, users of Polish roads will have to put up with an inferior product in the meantime.

13. (SBU) The following information is the most recent we have on Polish highway projects.

A2 - Konin to Strykow (near Lodz) (105 km) - was completed July 2006 - will become a publicly operated toll road next year, currently no fees for users

A2 - Strykow (near Lodz) to Warsaw (95 km) - 9 companies have submitted pre-tender documentation - tender now in progress with planned construction finish date in 2008 (Note: GDDKiA contact believes this estimate is too optimistic, and that completion will likely take until 2010)

A4 - Zgorzelec (German border due West of Wroclaw) to Krzyzowa (Boleslawiec) (50 km) - tender offered in April, 2006, work will commence during 2006 and will be completed by 2008

A4 - Reconstruction of section between Legnica and Wroclaw (60 km) for 2006

A18 - Olszyna to Golnice (far Southwest of Poland) (70 km) - will be completed during 2006

A1 - Gdansk to Nowe Marzy (Grudziadz) - will be completed by November 2008

A1 - Nowe Marzy (Grudziadz) to Torun - Negotiations are concluding, will be financed through EIB loan, no public tender will be offered

S1 - Bielsko-Biala to Cieszyn (on the Czech border) (28 km) will be completed during 2006

We were especially curious about the A1, the only North-South highway planned for Poland, that would connect Gdansk with Katowice. Our GDDKiA contact stated that there simply has not been enough traffic on this road to attract private investors (Note: Bechtel won a concession from the GOP to build a stretch of this road, but pulled out of the deal after years of unsuccessful negotiations with the Polish Government on project financing and payback issues). Econoff asked about the using Gdansk to export Polish goods and the seeming necessity of a good road connecting the city with the rest of Poland. The GDDKiA contact replied that most Polish exports are sent through Germany to the EU and beyond, and sending them overland to the West is more economical than shipping through Gdansk.  
HILLAS